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April 6, 2005

MEMORANDUM FOR MEMBERS OF THE GOVERNMENT REFORM SUBCOMMITTEE ON REGULATORY AFFAIRS

FROM: Candice Miller

SUBJECT: Briefing Memorandum for April 12, 2005 Hearing, "The Impact of Regulation on U.S. Manufacturing"

On Tuesday, April 12, 2005, at 10:00 a.m., in Room 2154 Rayburn House Office Building, the Government Reform Subcommittee on Regulatory Affairs will hold a hearing to consider the structural costs imposed by federal regulation on domestic manufacturers.

Between 2000 and 2003, the manufacturing sector lost 2.8 million jobs. International competitive pressures, government imposed structural costs, and the weakened economy all combined to hurt this critical sector of the U.S. economy. Manufacturing in the United States provides employment to 14 million people, produces 13% of GDP, is responsible for 62% of all exports, and accounts for 60% of all industrial research and development spending.

In 2003, the Manufacturing Institute released a study entitled, "How Structural Costs Imposed on U.S. Manufacturers Harm Workers and Threaten Competitiveness." The study concluded that domestically imposed costs, at all levels of government, are harming manufacturing and adding 22.4% to the cost of doing business in the United States. These structurally imposed costs included: corporate taxation, increasing health care and pension benefit costs, tort litigation, rising energy costs, and the cost of regulatory compliance. The study compared the costs with that of nine major foreign competitors (China, Canada, Mexico, Japan, Germany, France, United Kingdom, South Korea, and Taiwan). The report estimates the total regulatory compliance costs for U.S. manufacturers to be \$160 billion per year. This is the equivalent of a 12% excise tax on manufacturing. These costs, in a global marketplace, when increased can not be added to the price of manufactured goods and so depress wages and benefits, inhibit hiring, or prevent expansion and R&D.

The President announced his Manufacturing Initiative in a report in January of 2004. It was the result of 20 public roundtables, discussion with all sectors of the manufacturing

economy, and research by the US Department of Commerce. The report recommended the creation of an Assistant Secretary of Commerce for Manufacturing and Services, establishing a President's Manufacturing Council, establishing a new office of Industry Analysis, and creating and analyzing an inventory of potential regulatory reforms that would lower the cost of manufacturing.

The Office of Information and Regulatory Affairs (OIRA) in the White House Office of Management and Budget (OMB) requested public nominations of federal rules and guidance documents that could be reformed to reduce the regulatory burden on manufacturers in February of 2004. OIRA received 189 reform recommendations from 41 industry groups and non-profits. In March of this year, along with its annual Draft Report to Congress on the Costs & Benefits of Federal Regulations, OIRA released a report on regulatory reform of the manufacturing sector. The report selected 76 of the 189 nominations for priority consideration and action by executive branch agencies. Selected regulations included those from the Departments of Agriculture, Commerce, Health & Human Services, Homeland Security, Labor, Transportation, Treasury and from the Environmental Protection Agency and the Federal Communications Commission. Each of the regulations nominated for reform have a timeline for agency action or response.

Witnesses

The invited witnesses for the April 12 hearing are: Dr. John D. Graham, Administrator, OIRA, OMB; Al Frink, Assistant Secretary for Manufacturing and Services, US Department of Commerce; Gov. John Engler, President, National Association of Manufacturers; Dr. Thomas Duesterberg, President and CEO, Manufacturers Alliance/MAPI; Lori Luchak, Vice President, Miles Fiberglass & Composites representing the American Composites Manufacturers Association; and Sidney Shapiro, Center for Progressive Regulation.